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MEMORANDUM FOR: Deputy Director (Support)

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SUBJECT: Staff Study on "Financial Management Improvement Program"

This Staff Study contains a recommendation for DD/S approval in paragraph 3.

1. PROBLEM:

The Agency is committed to develop a program of financial management improvement that will ultimately result in the presentation of cost-based budgets as required by Public Law 863, 84th Congress. The successful accomplishment of this objective involves securing approval of two items:

- (1) Authorization of two positions on the staff of the Office of the Comptroller to devote full time to the "Financial Management Improvement Program" of the Agency.
- (2) Authorization to the Office of the Comptroller to issue, during the development stages, procedures for implementation of the program without the clearances required with respect to Agency regulations.

2. DISCUSSION:

- a. Budget Bureau Bulletin 57-5 pursuant to provisions to Public Law 863 establishes general requirements for the development, by each agency in the Executive Branch, of a planned program for the improvement of Financial Management and for the preparation of a specific time schedule for completion of such a program.
- b. This Agency submitted to the Budget Bureau a proposed time schedule which provides for the development of cost accounting, the further implementation of financial property accounting, the simplification of the allotment structure, and a commitment that the Agency will present its first cost-based budget to the Budget Bureau and Congress for the Fiscal Year 1961 or 1962.
- c. In order to meet these objectives and date goals, there was established a committee for the "Improvement of Financial Management in the Agency" to determine what has to be done to implement the Agency program and to establish a time schedule for undertaking whatever changes, adjustments, or installations may be required in connection with the present accounting and budget system.

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- d. This committee proposed that the following over-all time schedule be adopted:

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- (1) Fiscal Year 1958 be designated as the year of study and development.
 - (a) Agency accounting principles and policies be adopted by 1 August 1957.
 - (b) Task group studies on various accounting problems be made and completed by 1 January 1958. These studies will place emphasis on the accounting adjustments required to conform to the adopted principles and policies.
 - (c) The Technical Accounting Staff be assigned the responsibility for the development of the necessary procedures to implement the adopted accounting principles and policies and the approved recommendations of the various task group reports. These procedures are to be completed by 30 June 1958.
- (2) Fiscal Year 1959 be designated as the year of installation and improvement. During Fiscal Year 1959 the procedures developed by TAS would be installed and observed and necessary improvements made.
- (3) Fiscal Year 1960 be designated as the year of operations during which the objective would be the complete recording of information in such a manner that a cost-based budget could be presented for Fiscal Year 1962. This means that Fiscal Year 1960 would be reflected as the actual column in the Fiscal Year 1962 budget.

- e. Due to the fact that the committee is composed of persons who have very heavy responsibilities in the Office of the Comptroller, they can only devote part time to the Financial Management Improvement Program and, as a result, the program is being neglected, progress is very slow, and at the present rate of progression, the objectives and date goals submitted to the Budget Bureau will not be met.
- f. For example, the "Agency Accounting Principles and Policies" which were to be completed by 1 August 1957 have not been completed as of today and, unless considerable more concentrated time is devoted to them, they will not be completed for another month or so.
- g. This program will require the development and adoption of principles; the development, preparation, and installation of cost accounting procedures; the development and installation of a revised allotment structure; further improvement and implementation of financial property accounting; establishment of a procurement revolving fund; and the revision of budget procedures, techniques, formats, etc., to comply with cost-based budgeting.

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- h. This will require a great amount of planning, many conferences and discussions with all Agency components, a considerable amount of education of Agency personnel with respect to the objectives, desired results, etc., also a certain amount of selling of the program and, of course, a large amount of procedure writing and procedure installation.
- i. In order for this job to be accomplished effectively and within required time limitations, it is necessary that a small staff or task force be assigned full-time responsibility to the program. It is proposed that this staff should consist of two grade 15's and while they would use members of other staffs and offices, such as the Technical Accounting Staff, Finance Division, etc., to assist in accomplishing their mission, it would be their responsibility to attain completion.
- j. It is further proposed that the two positions be filled as follows:

One position would have the responsibility for the over-all guidance and direction of the Agency program and would be filled by the present Deputy Chief of the Budget Division [redacted]. This proposal is made because the committee that has performed the preliminary studies for the Agency is headed by [redacted] and, more importantly, because of the essential part the budget function and process plays in the "Improvement of Financial Management Program".

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- k. The other position would be of a consultant nature and would be filled by the transfer from Atomic Energy Commission of a certain individual who has made it known that he would be available. The individual we have in mind from Atomic Energy Commission has had approximately ten years of actual experience in cost-based budget work (Atomic Energy being one of the first agencies to adopt cost-based budgeting) and is a highly qualified accountant both in industry and government. This individual is approaching retirement age and has made it clear that as soon as our "Cost-based Budget System" has been completed and properly implemented (which we estimate will take three or four years), he will be willing to retire if we wish him to or at least seek employment elsewhere. In other words, we would be, in fact, employing the individual for three or four years as an expert consultant in the cost-based budget field.
- l. In addition, we previously stated that much education and selling effort and writing will be required to achieve the objectives of the program. Both of the individuals proposed have had considerable experience as lecturers and writers in the accounting and budget fields.
- m. If the recommendations included in this paper are approved, the Office of the Comptroller will absorb the two proposed positions within the present approved personnel ceiling through personnel savings which we anticipate will accrue as a result of certain planned revisions of machine methods and applications.

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- n. It is also our conviction that this program will become stylized unless some exception is made with respect to following the usual requirements of clearing Agency regulations. Present procedure requires that all regulations and instructions be concurred in by all offices of the Agency before they can become effective. Under these conditions, it has taken a long time (occasionally two or three years) to clear some basic regulations covering activities already operating. Based on this experience, new activities such as cost accounting and cost-based budgeting could never be fully accepted and approved within the time schedule set for the Agency. It is believed vital that the Office of the Comptroller be given the authority to issue, during the development stage, all procedures pertaining to the Financial Management Improvement Program without the approval of other offices. This is not to say that the Office of the Comptroller will not review all such procedures with Agency offices but, at some point, a decision must be made regardless of the fact that there may be some oppositions or opposite viewpoints.

3. RECOMMENDATIONS:

- a. That a staff consisting of two grade 15's be established as soon as possible to direct the implementation of the "Agency Financial Management Improvement Program" under the supervision and guidance of the Comptroller.
- b. That the Office of the Comptroller be granted authority to engage the services of a certain highly qualified accountant now with ABC who has had many years experience in "Cost-based Budgeting" to fill one of the positions.
- c. That the Comptroller be granted authority to approve and issue all procedures pertaining to the "Agency Financial Management Improvement Program" after review and consultation with appropriate components of the Agency.

15/
E. R. SAUNDERS
Comptroller

APPROVED:

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15/
Deputy Director
(Support)

4 Nov 57

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